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Emergency Session on Inflation and Food Distribution, Food Organization of Food Distributors

Max S. Baucus

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Senator * or Department*: **BAUCUS**

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MONTH/YEAR of Records*: **September-1979**

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(1) Subject*: **Emergency Session on Inflation & Food Distribution**

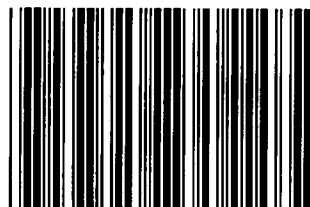
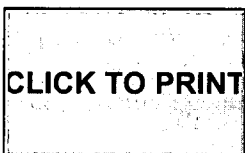
(select subject from controlled vocabulary, if your office has one)

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DOCUMENT DATE*: **09/17/1979**

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* "required information"



BAUCUS

STATEMENT BY

SENATOR MAX BAUCUS

EMERGENCY SESSION ON INFLATION AND FOOD DISTRIBUTION

BEFORE THE FOOD ORGANIZATION OF FOOD DISTRIBUTORS

SEPTEMBER 17, 1979

I appreciate the opportunity to come here this morning and talk about inflation and food.

I have to say that I am not an expert on food distribution and the problems of your industry. One of the reasons I came here today was to try to learn more about your specific problems and concerns.

I do know, as a Senator from Montana, quite a bit about the concerns of consumers and agricultural producers. So what I thought I would do today is talk a little bit about these people and the way they view the food processing industry.

What I hope I can leave you with is a little better understanding of an outsider's view of your industry. I hope my comments will also give you some idea of the input I get from my constituents before making decisions that might affect your industry.

I imagine that if I went up to the average Montanan and asked him what he thought of the food processing industry, he would say that it rips off both consumers and producers.

The wheat and cattle producers in Montana would talk about how when the prices of wheat and cattle go up, retail meat and bread prices go up correspondingly.

But when farm prices come down, retail food prices come down more slowly if at all,

Consumers would point out that the same sack of groceries they bought for \$10 a year ago costs \$11.40 today. ✓

According to the USDA, food prices increased 17.7 percent during the first quarter of 1979. Again according to the USDA, prices of

Bill
can't
stand
this and

-2-

inputs used by firms processing and marketing foods increased at an 11 percent annual rate during the first half of 1979.

Currently we are in a situation where food prices are increasing even though farm prices are going down. I think the biggest public-relations problem for your industry is providing an explanation of this phenomenon.

I should also mention that there is increasing concern in the Congress about economic concentration in the food processing and distributing system.

For example, we note that the four largest meat packing firms now control about one-third of the market. A study prepared for a Congressional committee shows that in major metropolitan areas the four largest grocery retail chains control an average of 52 percent of the market.

What your industry needs to do is improve the public's perception of your real costs of doing business and the services you provide.

It's a long way from the wheat fields and feed lots of Montana to the dinner table in Washington, D.C. The services that your industry provides are critical.

The efficient and effective food processing and distribution system in the United States is part of the reason why the American consumer spends only 17 percent of his or her disposable income on food. This compared with much higher figures in nearly every nation in the world.

Your industry provides Americans with safe, nutritious, reasonably priced food in a form that can be used conveniently.

You need to emphasize the important service you provide.

I would like to address the problem of inflation. Your cost of doing business is rising rapidly. During the first half of this year fuel oil, natural gas and electricity prices rose at annual rates of

64, 28, and 16 percent respectively.

During the first half of the year fuel prices directly increases marketing transportation costs by about \$200 million.

And there's just one other example, I note that the plastic wrap used to package fresh produce and meat is rising at a 32 percent rate of inflation.

The food processing and distribution industry is not alone in suffering from inflation. But because your industry is fuel and labor intensive, you may be struck especially hard by inflation.

In preparing for this panel, I examined some briefing materials I received from the Grocery Manufacturers Association. That material indicated that there are three major causes of rising food prices: rising farm prices, steadily increasing labor costs, and "government spending" which is the chief engine of inflation."

I hope I can leave you with the impression that you will not solve your public relations problems by blaming the other guys -- whether they be farmers, labor, or the government.

A far better approach is to point out the invaluable services your industry provides and the increasing costs that you must absorb.

There are a number of reasons for the inflation that continues to plague us. These include excessive government regulation, declining national productivity, a loss of competition caused by the corporate growth and the strenth of labor unions, and a number of other factors.

We all need to work together to attack inflation on a number of fronts.



BRIEFING PAPER FOR CONGRESSMEN AND SENATORS

Foodservice Organization of Distributors

September 17, 1979

TRUCKING DEREGULATION: The Kennedy-Carter Bill to deregulate the trucking industry (H.R. 4586, S. 1400) is a major contribution to the fight against inflation and should be passed immediately. It would (a) remove inflationary backhaul restrictions, and (b) remove inflationary ICC restrictions on food shipping. Failure by Congress to remove procedural obstacles to the bill's passage will damage business confidence in incumbents. Eighty-nine percent of F.O.O.D. members support this bill.

ENERGY LEGISLATION: F.O.O.D. is focusing its support on three aspects of new energy legislation: (a) requiring utilities to provide energy audits to commercial customers, as the President has proposed, (b) either requiring utilities to offer long-term financing to commercial customers for conservation improvements, with interest subsidies on loans (as per the President's program) OR extending low-interest government loans and loan interest subsidies directly to commercial energy users for conservation improvements (as per Kennedy-Durkin amendment No. 388 to S. 1308, the Priority Energy Act of 1979), and (c) providing direct tax credits for commercial energy conservation.

STANDBY GAS RATIONING: The priority for agricultural users of fuel, written into both Senate and House versions of the standby rationing bill, should have been extended to all fuel users in the food delivery system. Any future attempt by the President to invoke rationing should be conditioned by congressional action to include a priority for fuel users in the food system.

VALUE-ADDED TAX: F.O.O.D. is opposed to a value-added tax, which has been endorsed by chairmen of the House Ways and Means and Senate Finance Committees. It would impose onerous recordkeeping requirements on small businesses, and would necessitate sizeable price increases that would tremendously exacerbate inflation.

TAX REDUCTIONS: F.O.O.D. supports appropriate tax reductions to take effect in 1980, to assist business survival and recovery during the current recession. Payroll tax deductions, corporate income tax reductions and liberalized depreciation write-offs should all be included in a business-oriented tax relief package. Small businesses hard hit by energy cost increases should receive special attention in the design of these reductions.

CHILD NUTRITION LEGISLATION: F.O.O.D. supports maintaining the current level of appropriations for child nutrition programs administered by USDA. Instead of seeking economies in this program through reduced appropriations, the Congress in 1980 should provide a nationwide option for cash in lieu of commodities for school districts which otherwise are forced to waste resources through government-ordered use of commodities. All six school districts participating in a special study of the cash vs. commodities question saved money through use of cash.

16 1977 454 844

1979 (6 mos) 22% farm to retail August USDA
13% net average
11% prices of inputs
17% all food prices

inflation + distribution

politics + economics ahead

coping w/ Washington today - both houses

- squeaky wheel

- you'll get what you ask for.

gov't % of GNP

① Perceived causes of inflation

② - gov't spending

- Yet, % of GNP, total payroll, budget

① Food:

- consumers blame farmers + ranchers

- farmers + ranchers blame ^(can't pass on) middlemen (USDA figures)

Gov't ~~rate~~ : interest rate 13% gov't spending

② Actual, felt cause in D.C.

① Viet Nam

② concentration

③ reqs

econ power

④ gov't spending

⑤ OPEC

⑥ productivity

⑦ exogenous

⑧

public
at
large
gov't

Changes in Productivity

(output per hour of all persons)

66	+3.2 %
69	+0.2 %
72	+3.4 %
74	-3.0 %
77	+1.6 %
78	+0.3 %

Productivity growth through
1960's averaged 3 percent

currently is near zero, and

	Federal Outlays & Deficits (Billion Dollars)		State & Local Outlays	Inflation Rate
69	184.5	+3.2	117.6	5.0
72	232.0	-23.4	163.7	4.1
73	247.1	-14.8	180.5	6.0
74	264.9 269.6	-4.7	202.8	9.9
75	281.0 326.2	-45.2	230.6	9.4
76	300.0 366.4	-66.4	246.3	5.6
77	402.7	-45.0	266.6	6.2
78	450.8	-48.8	299.8	7.5
estimate 79	495.0	-33.2		9-13 % ?
estimate 80	532.3	-28.4		?

Gov't Spending as Percent of GNP

69	935.5	19.7%	
72	1,171.1	19.8%	78 2,106.6 21.3%
73	1,306.6	18.9%	
74	1,412.9	19.0%	
75	1,528.8	21.3%	
76	1,700.1	21.5%	
77	1,887.1	21.3%	
78			